The Fading Fortunes of Lamu Port

By Githua Kihara

The first three of the proposed 32 berths at the Lamu port are almost ready for use. The state has postponed the official launch of the first berth several times since it was completed last year. The first launch was planned for December, with Maersk, a Danish-based container shipping line, indicating that it would call at the facility loaded with transshipment cargo.

From the onset, it is important to point out that Lamu port was not premised as a transshipment hub. Rather, it targeted two transit markets: Ethiopia, with a population of over 100 million, and South Sudan a new state with a population of about 12 million that was anticipated to import a lot of materials for reconstruction after many years of war.

A year before his second term ended, President Mwai Kibaki was joined by the then Ethiopian Prime Minister Meles Zenawi and South Sudan's President Salva Kiir in laying down a foundation plaque of the project. The Sh2 trillion port, part of the Lamu Port South Sudan Ethiopia Transport Corridor (LAPSSET) was projected to contribute between 2 and 3 per cent of Gross Domestic Product (GDP) to Kenya's economy.

But now questions are now being raised about the viability of the proposed Lamu port and even whether the project will be able to attract private investors to complete the remaining berths as initially envisaged.

When Uhuru Kenyatta succeeded Mwai Kibaki in 2013, his administration gave the LAPSSET project a wide berth. Instead, he threw his entire weight on the Standard Gauge Railway (SGR) line as his legacy project, which he finished earlier than scheduled.

The government has since failed to allocate sufficient resources to the project, with the first berths taking over 8 years to complete. For instance, the National Treasury will disburse Sh6 billion towards the project in the current financial year, which is down from the Sh10 billion allocated in the 2019/2020 fiscal year.

As Kenya was taking its time to develop LAPSSET infrastructural projects, dramatic geopolitical shifts were taking place in the Horn of Africa, which put into question whether the country was staring at another white elephant project in the making.

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Dr. Kilonzo Mutule, who was a lead consultant in the project's formative years, developed a concept paper on the LAPSSET project in 2008 and set some parameters for its economic viability. In his concept paper, Dr. Kilonzo identified six components of the project. In order to become a transport and commercial hub for the region, he noted, Kenya would have to, at a minimum, develop: (a) a commercial port of international standards capable of handling high volumes of containers and other goods traffic; (b) a free trade zone along with the port to foster the growth of trade and commercial activity to make the area into a commercial hub; (c) a new beach resort city having facilities of international standards for native and international tourists; (d) an airport capable of being an air hub for the region; (e) a railway network to enable movement of goods from the port and the free trade zone to other parts of Kenya and the countries of the region; and (f) a road highway network to support the capacity of the railway network and provide for greater movement of goods into more areas.

Lamu: The proposed sea route for Ethiopia and South Sudan

The LAPSSET project was envisaged as an immediate project for landlocked Ethiopia, which has over the years been desperately seeking connections to more sea routes. Its direct line of sight with Addis Ababa allowed for the shortest railway link between the Addis and Lamu. Ethiopia's dependence on imported goods had shifted 98 percent of its traffic to the Djibouti port, which was about 85 percent of the whole port's traffic in 2009.

A study carried out by the African Trade Policy Centre (ATPC) in 2009 indicated that exorbitant charges incurred by Ethiopia at the port of Djibouti had seen the landlocked East African country's economy hit the doldrums. An alternative port looked like a great idea for the country.

The high charges involved, reduced free time for imported cargo, and the inadequacy of storage facilities were some of the factors that had ballooned Ethiopia's total logistics cost for its import and export of commodities, the study noted. "The estimated total transit costs have been consuming over 16 percent of Ethiopia's foreign trade value, which is about $2 million per day, which literally bleeds the economy," stated the study.

According to Dr. Kilonzo's concept paper, the long-term solution to Ethiopia's transport problems lay in the construction of a second port in Lamu. Indeed, Ethiopia had completed the building of a good tarmac road from Addis Ababa to Moyale quite a while ago.

For South Sudan, several options of seaports to that country left Lamu port as the most convenient route. The considerations for this choice took into account several factors, including security, number of borders to crossing points, nature of the terrain, length of the route, and accessibility to the West and East by sea.

South Sudan was expected to export crude oil. Traditionally, it has been doing so through a pipeline currently connecting its oil fields to the Red Sea at Port Sudan in Sudan, a country it had been at war with for many years. It was proposed that a pipeline be constructed alongside the railway line, thus linking the South Sudan's oil fields to the Lamu Free Port. At Lamu, some of the crude would be refined for the sub-regional market while the rest would be exported to various destinations. Single Buoy Moorings (SBM) would be put in place at the port to facilitate tanker loading in the high seas. It was also proposed that a second pipeline going the opposite way could be constructed from the Lamu refinery to Addis Ababa to transport oil products to Ethiopia.

However, things have not been good for South Sudan, which has since independence from Sudan faced numerous challenges. The government has struggled to build new governance institutions while dealing with low human and institutional capacity. It has not been able to diversify revenue streams or to provide basic services to its population, half of which is estimated to be illiterate and living below the poverty line.

Enter Eritrea, Somaliland and Djibouti

But things now look completely different due to significant developments in Ethiopia, the main target market. Prime Minister Abiy Ahmed, the new Ethiopian leader, accelerated efforts the country had undertaken in the last decade to tackle its logistics nightmares, which played out to Kenya's disadvantage. The new prime minister forged a truce with Eritrea, an arch-rival player. He struck a deal with President Isaias Afwerki that included restoring Ethiopian access to the ports of Massawa and Assab.

Since Eritrea gained independence in the early 1990s, Ethiopia became a landlocked country, which hampered its ambitions to emerge as an economic and political powerhouse in the Horn of Africa. Eritrea, a former province of Ethiopia, hosted the major port for Ethiopia until 1998 when the border conflict between Ethiopia and Eritrea erupted. Ethiopia had been using Assab port, which is 887km northeast of Addis Ababa, as a major logistics hub.

Ethiopia has also put its focus on another port in Somaliland. With this new move, the Somaliland port of Berbera is set to become the most modern port in the Horn of Africa early next year when its first phase is completed. In a strange turn of events, and with Arab Gulf states' growing interest in the Horn of Africa region due to geopolitical and strategic considerations, in May 2016, DP World, a global port mega-operator agreed to develop Berbera port and manage the facility for 30 years. Ethiopia acquired a 19% interest in the port project. The other partners in the project are DP World, with a 51% share, and Somaliland, with a 30% share. The total investment of the two-phased port project will reach $442 million. DP World will also create an economic free zone in the surrounding area, targeting a range of companies in sectors from logistics to manufacturing, and a road-based economic corridor connecting Berbera with Ethiopia.

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The port deal with Somaliland, a region that declared autonomy from Somalia in 1991, but which is still not internationally recognised by the international community, gave Somaliland some clout as an independent state. Port Berbera is now the closest sea route to Ethiopia, a journey of 11 hours by road. It has opened the route needed for huge growth in the import and export of livestock and agricultural produce.

The United Arab Emirates-based DP World Group port officials said that the port, which currently has the capacity to handle 150,000 container port traffic- Twenty-Foot Equivalent Units (TEUs), is expected to expand into handling one million TEUs of 20 and 40-foot mixed units, not so far from 1.3 TEUs Mombasa port is managing.

In addition, Djibouti has made far reaching development of its port. Djibouti International Free Trade Zone (DIFTZ) was officially inaugurated in July 2018. The initial phase, a 240-hectare zone, is the result of a $370 million investment and consists of three functional blocks located close to all of Djibouti's major ports.The project also creates major business opportunities for Djibouti and East Africa as the region's export manufacturing and processing capacity is expanded in key sectors such as food, automotive parts, textiles and packaging.

Doraleh Multipurpose Port, Port of Ghoubet and Tadjourah have all been completed in recent years. The Doraleh Port is strategically located, connecting Asia, Africa, and Europe. It can handle between two and six million tonnes of cargo a year on its bulk terminal and breakbulk terminal respectively.

Another key milestone for Djibouti port is the standard gauge railway (SGR). A 750-kilometre SGR line connecting Addis Ababa with the port in Djibouti has since been constructed, cutting a three-day journey down to 12 hours. In an ambitious road-building programme, flagship projects include a 200km expressway connecting Hawassa, home to the country's largest industrial park, with the capital Addis Ababa.

Djibouti has also received global attention due to its strategic location. Virtually, all of the sea trade between Asia and Europe passes along the Red Sea on its way to or from the Suez Canal. As a result, Gulf and Middle Eastern powers, China, the United States and France have developed great interest on this route. The country today hosts 5 military bases.

A different strategy

LAPSSET authority chief, Mr Sylvester Kasuku, in a TV interview this year, acknowledged that there is a need for a paradigm shift on rolling out the LAPSSET project partly due to the delay in developing onshore infrastructure to connect the corridor.

Apart from the construction of the first three berths, Lamu port has already been connected to the national power grid. The government has also constructed the 500-kilometre Isiolo-Moyale road. Lamu-Garsen route is already undergoing construction while the Garsen-Moyale route is being rehabilitated.

With a natural depth of 18 months, transshipment business should now be a key area of focus to keep Lamu port busy. However, a new strategy of marketing the port as a transshipment hub would be needed, according to Gilbert Langat, the Chief Executive Officer of Shippers Council of East Africa (SCEA), since as a country, Kenya has not performed well on this port business segment.

Out of 1.3million TEUs the port handled in Mombasa, transshipment cargo constituted a paltry 121,577 TEUs in 2018 and 211,604 TEUs in 2019. In February 2016, Phase I of Kipevu Container Terminal was completed, adding 550 000 TEUs to Mombasa port's container capacity, which created room for country to experiment in transshipment cargo as a new business frontier for the port. However, this berth is currently being used by Maersk, the biggest shipping line at the Mombasa port that commands over 30 per cent of the port's cargo volume. Phase II is expected to provide an additional 450 000 TEU.

Kenya Ships Agents Association (KSAA) CEO, Juma Tellah, said that Mombasa port transshipment has a huge potential only if the government relaxes some of the measures it has put in place. Due to some challenges at Dar es Salaam port, some shipping lines occasionally use Mombasa for transshipment to Tanzania.

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The Kenya Revenue Authority (KRA) still requires shipping lines to lodge entries with customs. Although shipping lines successfully lobbied to be allowed to lodge the entries without the aid of freight forwarders, which came at an extra cost, the delays still take a huge toll. Shipping lines have been pushing for the use of inward and outward manifests to reconcile movement of cargo in and out of the port, which is a common practice all over the world.

Although the government has held its ground that this can only be canvassed through the East Africa Community Customs Management Act (EACCMA), Tanzania, a signatory, does not require shipping lines to lodge transshipment cargo entries, according to Tellah.

Zanzibar and other East African islands are popular destinations for Kenya's transshipment cargo, with volumes going as far as the Far East. According to Langat, Lamu can also be an ideal location for the transshipment of goods destined for Europe.

The other option for making the LAPSSET corridor viable is for the counties it traverses to leverage on the project and open up their economies. The Government's LAPSSET Corridor Development Plan has already divided the Northern Eastern region into nine growth areas: Lamu growth area, Garissa-Bura growth area, Wajir growth area, Moyale growth area, Lokichogio growth area, Turkana growth area, Isiolo-Meru Archers Post growth, area and the Mwingi growth area.

Each of the growth areas has an identified set of economic activities and investment opportunities that are set to spur economic growth of the area and the Northern Eastern region. These include the Isiolo-Meru area being a logistics centre along the corridor and a resort city and the Moyale, Wajir and Garissa-Bura growth areas mainly for the establishment of of Export Processing Zones for livestock and animal by-products.

Directly related to the Lamu port is the potential of Isiolo, Lokichogio and Moyale for the setting up of inland container depots, which may increase transport efficiency, and facilitate cross-border trade with neighbouring countries that will be linked by LAPSSET.

It is expected that public sector resources will be sourced to develop physical and social infrastructure to facilitate investment. To achieve such accelerated integrated development, the government should ensure an enabling business environment that fosters investment.

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